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John A. Ricker  
Executive Director  
Universal Service Programs Support

December 2, 2002

Marlene H. Dortsch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S W  
Washington, D.C. 20554

RECEIVED

DEC - 2 2002

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: TRS Fund Administration  
Financial Statements  
CC Docket No. 98-67

Dear Ms. Dortsch:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the ninth year of its operation (from July 1, 2001 through June 30, 2002), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(4)(iii)(D) and (H).

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter that is enclosed and remitting the duplicate to the bearer.

Very truly yours,

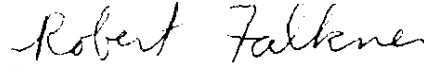
Enclosures

cc: T. Chandler  
E. Einhorn  
A. Firth  
W. Hill  
C. King  
J. Lande  
T. Peterson  
L. Selzer  
S. Webber

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## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 2nd day of December, 2002, by mailing copies thereof by United States Mail, first class postage paid, by overnight express mail or by hand delivery. to the persons listed below.



Robert Falkner

The following parties were served:

Marlene H. Dortsch\*  
Office of the Secretary  
445 Twelfth St., SW  
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Washington, DC 20554  
(Original and three copies)

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Cheryl King\*  
Disability Rights Office  
Federal Communications Commission  
445 Twelfth St., SW  
Washington, DC 20554

\* Hand delivered



## **FINANCIAL STATEMENTS**

Telecommunications Relay Services Fund

June 30, 2002 and 2001

**with** Report of Independent Auditors

# Telecommunications Relay Services **Fund**

## FINANCIAL STATEMENTS

June 30, 2002 and 2001

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## Report of Independent Auditors

The Board of Directors  
National Exchange Carrier Association, Inc

We have audited the accompanying statement of financial position of the Telecommunications Relay Services Fund (the "TRS Fund") administered by the National Exchange Carrier Association, Inc. (the "Company") **as** of June 30, 2002, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the TRS Fund for the year ended June 30, 2001, were audited by other auditors whose **report** dated October 5, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. **An** audit includes examining, **on** a test basis, evidence supporting the amounts and disclosures in the financial statements. **An** audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of the TRS Fund at June 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

October 18, 2002

# Telecommunications Relay Services Fund

## Statements of Financial Position

	<b>June 30</b>	
	<b>2002</b>	<b>2001</b>
	<i>(Dollars in thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	<b>\$36,522</b>	\$23,792
Receivables from contributors, net of allowance for doubtful accounts of \$1,132 and \$353	<b>434</b>	298
Interest receivable	<b>6</b>	76
Total assets	<b>\$36,962</b>	\$24,166
<b>Liabilities and net assets</b>		
Liabilities:		
Payable to service providers	<b>\$12,474</b>	\$ 9,655
Payable to contributors	<b>222</b>	53
Accrued expenses	<b>44</b>	<b>58</b>
Total liabilities	<b>12,740</b>	9,766
Net assets — unrestricted	<b>24222</b>	14,400
Total liabilities and net assets	<b>\$36962</b>	\$24,166

*The accompanying notes are an integral part of these financial statements.*

# Telecommunications Relay Services Fund

## Statements of Activities

	<b>Year ended June 30</b>	
	<b>2002</b>	<b>2001</b>
	<i>(Dollars in thousands)</i>	
Revenues:		
Contributions	<b>\$59,912</b>	\$ 58,908
Interest income	<b>815</b>	1,121
Total revenues	<b>60,727</b>	60,029
Expenses:		
Amounts paid and due to service providers	<b>49,358</b>	49,805
Uncollectible contributions	<b>1,043</b>	621
Administrative costs ( <i>Note 3</i> )	<b>504</b>	525
Total expenses	<b>50,905</b>	50,951
Net increase in net assets	<b>9,822</b>	9,078
Net assets — unrestricted, beginning of year	<b>14,400</b>	5,322
Net assets — unrestricted, end of year	<b>\$ 24,222</b>	<b>\$ 14,400</b>

*The accompanying notes are an integral part of these financial statements.*



# Telecommunications Relay Services Fund

## Statements of Cash Flows

	Year ended June 30	
	2002	2001
	<i>(Dollars in thousands)</i>	
<b>Cash flows from operating activities:</b>		
Cash received from contributors	<b>5 58,902</b>	\$ 58,849
Cash received for interest	<b>885</b>	1,047
Cash paid to service providers	<b>(46,539)</b>	(48,285)
Cash paid for administrative costs	<b>(518)</b>	(494)
Net cash provided by operating activities	<b>12,730</b>	11,117
Cash and cash equivalents, beginning of year	<b>23,792</b>	12,675
Cash and cash equivalents, end of year	<b>\$36,522</b>	\$ 23,792
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>		
Change in net assets	<b>\$ 9,822</b>	\$ 9,078
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Provision for uncollectible accounts	<b>1,043</b>	621
Net changes in assets and liabilities:		
Increase in receivable from Contributors	<b>(1,179)</b>	(511)
(Increase) decrease in interest receivable	<b>70</b>	(74)
Increase in payable to service providers	<b>2,819</b>	2,010
Increase (decrease) in payable to contributors	<b>169</b>	(38)
Increase (decrease) in accrued expenses	<b>(14)</b>	31
Net cash provided by operating activities	<b>\$ 12,730</b>	\$ 11,117

*The accompanying notes are an integral part of these financial statements.*

# Telecommunications Relay Services Fund

## Notes to Financial Statements

June 30, 2002

*(Dollars in thousands, except where noted)*

### 1. Organization and Operations

#### Organization

The Telecommunications Relay Service Fund (the "TRS Fund") is a not-for-profit fund established by the Federal Communications Commission (the "FCC") in 1993, in accordance with Title IV of the Americans With Disabilities Act, which required nationwide Telecommunications Relay Services ("TRS"). Traditional TRS services allow people with hearing and/or speech disabilities who use text telephones to talk with people who use standard telephones. In a March 2000 Report and Order, the FCC added Speech to Speech ("STS") to the list of required TRS services. STS involves the use of specially trained Communications Assistants who understand the speech patterns of persons with speech disabilities. In the same March 2000 Order, the FCC encouraged the offering of Video Relay Service ("VRS") to make it easy for a sign language user to make a TRS call. VRS allows a person using sign language to communicate visually with an interpreter at the VRS center instead of using a text telephone to converse with a Communications Assistant.

The FCC named the National Exchange Carrier Association, Inc. ("**NECA**" or "the Company") as administrator of the Telecommunications Relay Services Fund ("TRS Fund"). NECA has been appointed to serve as administrator through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999).

#### Operations

TRS funds **are** collected from all common carriers providing interstate services and distributed monthly to qualified relay service providers ("service providers"). The annual contribution factor is developed by NECA and approved by the FCC based upon estimates of the revenue requirements necessary to provide services in the upcoming 12-month period. The factor is determined by taking into consideration the projected funding requirements *of* providing interstate **TRS** and STS, and intrastate and interstate VRS and Internet Protocol ("IP") **Relay** Services, an uncollectible allowance of 10% **and** any **fund surplus/shortfall** which is carried over from the prior year.

# Telecommunications Relay Services Fund

## Notes to Financial Statements (continued)

*(Dollars in thousands, except where noted)*

### 1. Organization and Operations (continued)

The common carriers' annual contribution factor, approved by the FCC, was .00073 per each dollar of interstate revenue reported by the common carriers for the period from July 1, 2000 through June 30, 2001 and remained the same for the July 1, 2001 through June 30, 2002 period. From July 1, 2002 through June 30, 2003, the contribution factor has been increased to .00080 per each dollar of interstate revenue. The common carriers' contributions are shown on the statements of activities as "contributions" as prescribed by the FCC in ~~Part 64~~ of Title 47 of the Code of Federal Regulations.

Payments to service providers for **TRS**, STS, VRS and IP relay services are based on conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate among all service providers and is calculated based on the total estimated costs to provide each service divided by the total expected conversation **minutes** to be provided.

The following table illustrates the rates in effect during the reporting period and for the subsequent year:

	<u><b>TRS</b></u>	<u><b>STS</b></u>	<u><b>VRS</b></u>	<u><b>IP Relay Services</b></u>
7/1/02 – 6/30/03	\$ 1.528	\$ 4.045	\$ 17.044	\$ 1.528
8/1/01 – 6/30/02	1.395	2.469	9.614	1.395 <sup>1</sup>
7/1/01 – 7/31/01	1.309	2.620	7.449	—
1/1/01 – 6/30/01	1.328	4.623	5.539	—
7/1/00 – 12/31/00	1.282	4.623	5.143 <sup>2</sup>	—

The FCC rules permit common carriers to **file** their monthly remittances disclosing their revenues on a cash basis. The "receivables from contributors" on the statements of financial position, as well as the "contributions" on the statements of activities reflect the **contributions** based on revenues that are reported by the common carriers on a cash basis.

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<sup>1</sup> Effective April 22, 2002.

<sup>2</sup> Rate increased to \$5.539 per minute beginning October 1, 2000.

## Telecommunications Relay Services Fund

### Notes to Financial Statements (continued)

*(Dollars in thousands, except where noted)*

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

These financial statements are prepared in accordance with accounting principles generally accepted in the United States.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid instruments with an original maturity when purchased of three months or less.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts amounted to \$1,132 and \$353 at June 30, 2002 and 2001, respectively, to provide for anticipated uncollectible amounts from certain carriers. Uncollectible contributions of \$264 and \$262, were written off during the years ended June 30, 2002 and 2001, respectively.

### **Retroactive Billing Adjustments**

Contributors to **TRS** are permitted to revise their revenue data, which may result in adjustments to amounts previously billed. The Company has recorded these adjustments in current period billings rather than reflecting these adjustments in the **period** in which they pertain. Management does not believe that the impact of these adjustments is material to the financial statements.

## Telecommunications Relay Services Fund

### Notes to Financial Statements (continued)

*(Dollars in thousands, except where noted)*

#### 2. Summary of Significant Accounting Policies (continued)

##### Reclassifications

Certain amounts in prior year's financial statements have been reclassified to conform to the current year's presentation.

#### 3. Administrative Costs

Administrative costs consist of the following:

	<b>Year ended June 30</b>	
	<b>2002</b>	<b>2001</b>
Direct labor costs	\$ 162	\$ 63
NECA allocated common costs	137	243
Miscellaneous	127	109
Data collection agent	70	100
Travel	8	10
Total administrative costs	<b>\$ 504</b>	<b>\$ 525</b>

NECA administrative costs charged to the TRS Fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAW") filed with and approved by the FCC. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including the TRS Fund) is attached. NECA has independent public accountants review NECA's cost allocation procedures to ensure such procedures **are** in compliance with the CAM. The latest attestation report issued was dated March 28,2002 and covers the year ended December 31,2001.

Costs for NECA personnel specifically assigned to the TRS Fund such as salaries, benefits and travel are directly charged to the TRS Fund. Common costs **are** accumulated in defined cost pools and allocated on a monthly basis to the TRS Fund using activity based cost drivers as further described in NECA's CAM. These costs include **legal**, auditing, finance, information systems, facilities, and general overheads.

## Telecommunications Relay Services Fund

### Notes to Financial Statements (continued)

*(Dollars in thousands, except where noted)*

#### **3. Administrative Costs (continued)**

Miscellaneous expenses include fees incurred of **\$56** and **\$40** associated with an external investigation of one TRS service provider for the years ended June 30, 2002 and 2001, respectively (see Note 5).

Beginning on January 1, 2000, NECA, under contract with the Universal Service Administrative Company, has acted **as** the Data Collection Agent (“DCA”) for the TRS Fund and other FCC established programs. As the DCA, NECA collects revenue information from interstate telecommunications service providers on FCC Form 499-A and allocates the cost associated with the collection process to the various programs. During fiscal 2002, TRS was allocated 8% of total DCA expenses. In fiscal 2001, TRS **was** allocated 20% of total DCA expenses through March 31, 2001 and 8% of total from April 1, 2001 through June 30, 2001.

#### **4. Taxes**

The **TRS** Fund was established in accordance with the Americans with Disabilities Act directed **by** the FCC and therefore not subject to Federal or state income, sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

#### **5. Contingencies**

Included in payable to service providers are amounts claimed by Publix Network Corp. (“Publix”) pending settlement of litigation between Publix and the Department of Justice. Amounts claimed at June 30, 2002 and 2001, are \$2,381 and \$2,322, respectively. These monies will continue to be withheld until the pending litigation is resolved.